SEIX INVESTMENT ADVISORS LLC®
A VIRTUS INVESTMENT PARTNER

Leveraged Loans: An All-Weather Asset Class

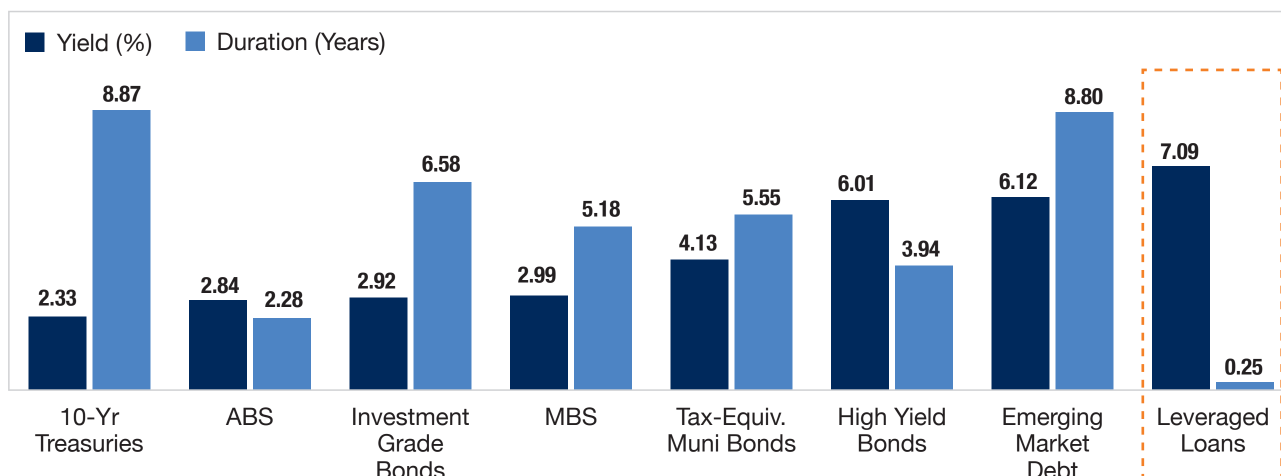
While loans remain a hedge against inflation and rising rates, we believe they deserve space in every investor's fixed income portfolio, regardless of market conditions.

Geopolitical and economic concerns may have spurred greater volatility, but we remain constructive on the leveraged loans market and continue to have a slightly higher quality bias.

With the Federal Reserve (Fed) playing catch-up on monetary policy, our base case remains for four consecutive 50 basis points (bps) hikes in May, June, July, and September to tame inflation. We would expect that to be followed by three 25 bps hikes to reach about 2.75% by the end of 2022—all of which should benefit investors in floating rate bank loans.

We still expect modest GDP growth will drive the leveraged loan market and its compelling yields. As of 3/31/22, the yield on loans was nearly 7.1%.

Leveraged Loans Offer Compelling Yields with Significantly Less Duration Risk



Past performance is not indicative of future results.
As of 3/31/22. Source: Bloomberg Indices - yield to worst, JPMorgan EMBI+ Index - yield to worst, Credit Suisse Leveraged Loan Index - yield 3-year life.
Yields above represented by the Bloomberg U.S. Treasury Bellwethers 10 Year Index, Bloomberg Asset-Backed Securities Index, Bloomberg U.S. Aggregate Bond Index, Bloomberg U.S. Mortgage-Backed Securities Index, Bloomberg Municipal Bond Index (assuming 37% tax rate), Bloomberg U.S. High Yield Index, J.P. Morgan Emerging Markets Bond Index Plus, and Credit Suisse Leveraged Loan Index. Indexes are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and are not available for direct investment.

continued

FUNDAMENTALS, TECHNICALS, AND VALUATIONS ALL FAVORABLE

Positive Fundamentals

- Fundamentals continue to improve for most sectors, although we are seeing increased signs of margin pressure. Top-line growth is exceeding EBITDA growth, leading us to favor companies carrying less leverage.
- Going forward, we believe default rates will remain low through 2022, assuming we continue to recover from the pandemic, while the Fed begins to transition into a higher interest rate regime.
- Against that backdrop, we focus on companies with significant liquidity and asset bases, that we believe can bridge the gap to a more normalized environment.

Positive Technicals

- We expect technicals for secondary loans to remain well supported as we anticipate stronger inflows driven by concerns around rising interest rates, collateralized loan obligation (CLO) creation, as well as mergers & acquisitions and bond-for-loan takeout activity to persist.
- In the first quarter of 2022, loan mutual funds experienced strong inflows of $21.1 billion, which followed $46.5 billion of inflows in 2021.
- New CLO formation and existing CLOs provide significant technical support to the market, as CLO issuance remains solid, but not as robust as 2021, which was expected. In FY2021, $184 billion U.S. CLOs priced, ex-refinancing.

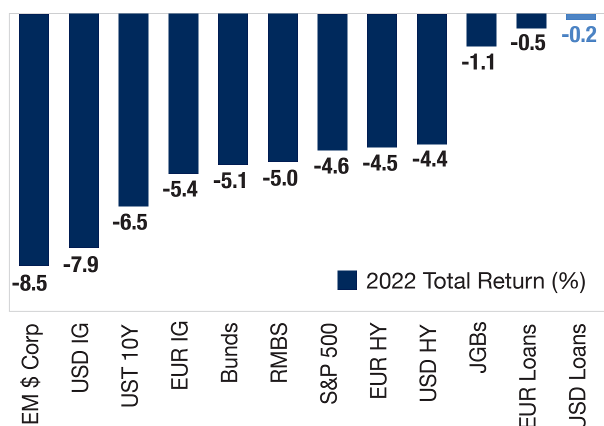
Favorable Valuations

- Leveraged loan yields are at 7.1%[1] – compelling from a risk/reward perspective.
- Leveraged loans offer investors the potential for income and capital appreciation. Additionally, as a floating rate asset class, loans offer a hedge against rising interest rates.
- Amid rising inflationary expectations, loans ranked first in their correlation with inflation across various asset classes and strategies[2], which implies they may potentially offer a hedge to rising inflation.

[1]Credit Suisse Leveraged Loan Index – 3/31/22 Yield (3-year life).
[2]According to Morningstar data on 100 different asset classes and strategies over 20 years ended December 31, 2021, loans ranked first in their correlation to inflation. Inflation is represented by the Morningstar/Ibbotson SBBI Inflation Index, which tracks U.S. inflation.

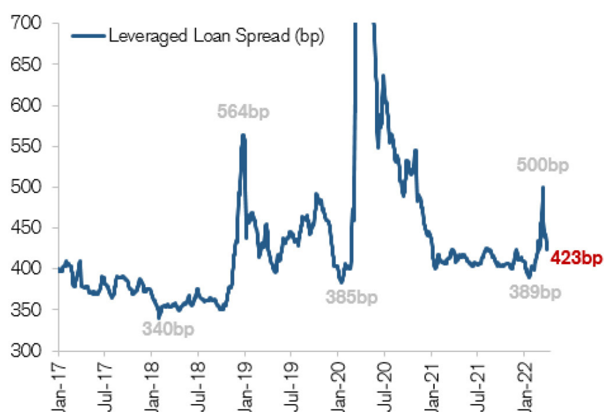
LOANS ARE WELL POSITIONED FOR ANOTHER ROBUST YEAR, AS RISING RATES DRIVE STRONG RETAIL FUND FLOWS

Loans Outperforming Other Asset Classes in 2022



Past performance is not indicative of future results.
Source: JPMorgan, Credit Suisse

Loan Spreads Still Remain Wide to Historical Levels



Past performance is not indicative of future results.
Source: JPMorgan, Credit Suisse

LOANS AS AN ALL-WEATHER FIXED-INCOME ALLOCATION

While it may be easy to see the attraction of floating rate loans in a rising rate environment, it should be noted that loans did very well in the declining rate environment of the last 15 years. In fact, over the last 30 years, loans experienced only two down years—2008 (the global financial crisis) and a slight downturn in 2015 (when there was a big sell-off in energy), according to Credit Suisse. All of which explains why loans' attractive return per unit of risk have drawn institutional investment through various market cycles.

Loans and High Yield vs. Equities (1/1/92-3/31/22)

	Annualized Return	Standard Deviation	Return per Unit of Risk	Rolling 3-Year Periods		
				Best	Worst	% Negative
Leveraged Loans	5.79%	5.39%	1.0	17.5%	-8.0%	3%
High Yield Bonds	7.50%	8.24%	0.9	26.1%	-7.6%	6%
Large-Cap Equity	10.38%	14.43%	0.7	32.8%	-16.1%	18%
Small-Cap Equity	9.70%	19.06%	0.5	29.6%	-17.8%	14%

Past performance is not indicative of future results.
The High Yield, Leveraged Loan, Large Cap Equity and Small Cap Equity Markets are represented by the Bloomberg U.S. Corporate High Yield Bond Index, Credit Suisse Leveraged Loan Index, S&P 500® Index, and Russell 2000® Index, respectively. Returns were calculated using monthly data and begin with the inception of the Credit Suisse Leveraged Loan Index on 1/1/92. Indexes defined in appendix. Source: Credit Suisse, Standard & Poor's, FTSE Russell, Bloomberg.

Remember: the loan market is also an income asset class and should be considered more than a rate hedge. Should rates continue to rise, active managers have the ability (and agility) to adjust to credit, liquidity, and trading risks that come with leveraged loans at different parts of the business cycle.

Seix Investment Advisors has the flexibility, agility, and tools to pivot toward under-researched opportunities and relative values, especially as macro risks intensify. The firm maintains strict controls around portfolio construction, sell discipline, and trading strategy to mitigate downside exposure. It also invests a great deal of effort in identifying and measuring risk. That includes careful attention to increased liquidity and solvency risks.

About Seix Investment Advisors LLC

Seix Investment Advisors is an investment management boutique focused exclusively on managing fixed income strategies since 1992. Seix seeks to generate competitive absolute and relative risk-adjusted returns over the full market cycle through a bottom-up focused, top-down aware process. Seix employs multi-dimensional approaches based on strict portfolio construction methodology, sell disciplines, and trading strategies with prudent risk management as a cornerstone.

INDEX AND INVESTMENT TERM DEFINITIONS

The **Bloomberg U.S. Aggregate Bond Index** measures the U.S. investment grade fixed rate bond market. The index is calculated on a total return basis. **Bloomberg U.S. Corporate High Yield Bond Index** is an unmanaged market value-weighted index that covers the universe of fixed rate, non-investment grade debt. The **Bloomberg U.S. Corporate Index** is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by U.S. and non-U.S. industrial, utility, and financial issuers that meet specified maturity, liquidity, and quality requirements. **Credit Suisse Leveraged Loan Index** is a market-weighted index that tracks the performance of institutional leveraged loans. The **Russell 2000® Index** is a market capitalization-weighted index of the 2,000 smallest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. The index is calculated on a total return basis with dividends reinvested. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and is not available for direct investment. **Bloomberg U.S. Mortgage-Backed Securities (MBS) Index** measures agency mortgage-backed pass-through securities (fixed-rate and hybrid ARM) issued by GNMA, FNMA, and FHLMC. The index is calculated on a total return basis. **Bloomberg U.S. Treasury Bill 1-3 Month Index** is an unmanaged index which includes all publicly issued zero-coupon U.S. Treasury Bills that have a remaining maturity of less than 3 months and more than 1 month. **Bloomberg U.S. Treasury Bellwethers** indices track on-the-run U.S. Treasury issuance for the 3m, 6m, 2y, 3y, 5y, 10y, and 30y issues. **Bloomberg Asset-Backed Securities Index** include pass-through, bullet, and controlled amortization structures. The **ABS Index** includes only the senior class of each ABS issue and the ERISA-eligible B and C tranche. **Bloomberg CMBS Investment Grade Aaa Index** is the Aaa component of the CMBS: ERISA Eligible index, which includes investment grade securities that are ERISA eligible under the underwriter's exemption. **Bloomberg Municipal Bond Index** is a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market. **J.P. Morgan Emerging Markets Bond Index Plus (EMBI+)** is a traditional, market capitalization weighted USD denominated sovereign emerging markets index with a unique liquidity ranking methodology to provide investors with the most liquid set of issues within the asset class. The **S&P 500® Index** is a free-float market capitalization-weighted index of 500 of the largest U.S. companies. The index is calculated on a total return basis with dividends reinvested. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and is not available for direct investment.

A **Basis Point (bp)** is equal to 0.01%. **Collateralized Loan Obligations** are securities backed by a pool of assets often low-rated corporate loans. **Credit Ratings** noted herein are calculated based on S&P, Moody's, and Fitch ratings. Generally, ratings range from AAA, the highest quality rating, to D, the lowest, with BBB and above being called investment grade securities. BB and below are considered below investment grade securities. If the ratings from all three agencies are available, securities will be assigned the median rating based on the numerical equivalents. If the ratings are available from only two of the agencies, the more conservative of the ratings will be assigned to the security. If the rating is available from only one agency, then that rating will be used. Ratings do not apply to a fund or to a fund's shares. Ratings are subject to change. **Default Rate** is most commonly referred to as the percentage of loans that have been charged off after a prolonged period of missed payments. Defaulted loans are typically written off from an issuer's financial statements and transferred to a collection agency. In some cases, a default rate may also be a higher interest rate charged to a borrower after a specified number of missed payments occur. **Interest Coverage Ratio** is a debt ratio and profitability ratio used to determine how easily a company can pay interest on its outstanding debt. **Effective Duration** is the change in the value of a fixed income security that will result from a 1% change in interest rates while taking into account the way changes in rates will affect the expected cash flows of any bond with an embedded option such as call or prepayment option. This measure assigns a probability to the exercise of a call option, where applicable, based on specified shifts in the yield curve. Duration is expressed as a number of years, and generally, the larger the duration, the greater the interest rate risk or reward for a portfolio's underlying bond prices.

IMPORTANT RISK CONSIDERATIONS:

Credit & Interest: Debt instruments are subject to various risks, including credit and interest rate risk. The issuer of a debt security may fail to make interest and/or principal payments. Values of debt instruments may rise or fall in response to changes in interest rates, and this risk may be enhanced with longer-term maturities. **Bank Loans:** Bank loans may be unsecured or not fully collateralized, may be subject to restrictions on resale, may be less liquid and may trade infrequently on the secondary market. Bank loans settle on a delayed basis; thus, sale proceeds may not be available to meet redemptions for a substantial period of time after the sale of the loan. **High Yield Fixed Income Securities:** There is a greater risk of issuer default, less liquidity, and increased price volatility related to high yield securities than investment grade securities. **Market Volatility:** The value of the securities in the portfolio may go up or down in response to the prospects of individual companies and/or general economic conditions. Price changes may be short- or long-term. Local, regional or global events such as war, acts of terrorism, the spread of infectious illness or other public health issue, recessions, or other events could have a significant impact on the portfolio and its investments, including hampering the ability of the portfolio's manager(s) to invest the portfolio's assets as intended.

The commentary is the opinion of the subadviser. This material has been prepared using sources of information generally believed to be reliable; however, its accuracy is not guaranteed. Opinions represented are subject to change and should not be considered investment advice or an offer of securities.

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